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SUBJECT: SPECIAL TREATMENT IS NOT ENOUGH: THE GOI
PERSPECTIVE ON NORTH GAZA WASTEWATER TREATMENT PLANT

11. (U) SUMMARY: The GOI disputes World Bank assertions--widely picked up by U.S. analysts--that the North Gaza Wastewater Treatment Plant (NGWWTP) project is at a standstill because the GOI had not approved entry of necessary equipment and materials into Gaza, noting that all approvals were issued a year-and-a-half ago. The GOI is anxious to have North Gaza sewage properly treated and says that the problem is the lack of bidders on the USD 12 million construction project. That said, an unclear Gaza policy and the consequent increase in perceived business risk dissuaded potential bidders on this important construction project. Having been caught by the unintended consequences of past policy, it remains to be seen whether the GOI may now be open to establishing a more transparent system that will enable future important infrastructure repair projects to move forward quickly. END SUMMARY.

12. (SBU) One thing is clear: Phase II of the NGWWTP project, the sewage treatment plant, is not moving forward. The reasons for this stagnation are murky, and there is plenty of muck being hurled. A June 8 Reuters piece ("World Bank says Blair sewage project in Gaza may collapse") places blame for lack of progress on the project squarely on Israel, citing a June 4 memo to donors, in which the World Bank reportedly said Israel had prevented delivery of critical equipment to the project since March. In answer to an Embassy request for an official response to these allegations, Coordinator for Government Activities in the Territories (COGAT) Deputy Head of Foreign Relations Uri Singer wrote to EconOff:

BEGIN TEXT:

"My response is as follows:

"1. I have urged (World Bank Country Director for West Bank and Gaza) Mr. David Craig, numerous times to stop giving excuses and to stop blaming Israel for his lack of success regarding the NGWWTP.

"2. We are concerned, and I personally suspect (and I told Mr. Craig as much) that the second phase of the project will not happen (i.e., the part in which the sewage will be treated), for two main reasons: lack of interest from the WBG (PA) side and lack of interest from the PWA (Palestinian Water Authority) side.

"3. Take into consideration that ALL items required for the second phase have been approved a year and a half ago."

END TEXT

13. (U) At a June 10 follow-up meeting with EconCouns, Singer elaborated on the progress of the NGWWTP project. Phase I, which involved digging basins to hold pumpage from the Beit Lahiyya lagoon, is complete, and already six of the nine basins are filled with sewage. The GOI issued all approvals for Phase II, the treatment plant itself, one-and-a-half years ago, he said, so from the GOI perspective, there is no reason not to go ahead with the work. On one issue--a World Bank request David Craig made to COGAT one-and-a-half months ago to open the security fence for more direct delivery of

materials--the GOI refused, saying that to do so would risk setting up a staging area for terrorists. Instead, the GOI assured access through the normal crossing points to Gaza, and so, in its view, offered everything necessary to implement Phase II. In the meantime, the PWA has proposed drilling 35 holes into which to release this untreated wastewater. The GOI is opposed to this proposal, because the untreated sewage would be released into the aquifer, creating an "ecological timebomb," Singer said.

14. (SBU) The real reason why Phase II has not gone forward, Singer asserted, is that there were no bidders on the USD 12 million tender to complete the project, a tender "which the PWA designed." The request for tenders went unanswered, and the World Bank hopes to reissue it at an as yet unspecified time when they expect greater resonance among potential bidders. This of course raises the question: why were there were no bidders? Businessmen who had been expected to submit bids on the NGWWTP Phase II tender indicated that there was a great deal of insecurity on the part of contractors regarding whether equipment would get into Gaza through the crossings in a timely manner--Israeli assurances notwithstanding. Further, this insecurity made it nearly impossible to estimate costs, because of the uncertainty over whether materials could be procured through the crossings or, at double-to-quadruple the cost, through the tunnels. Interestingly, these same businessmen submitted a bid on June 10 for a treatment plant at Rafah, saying that the relative size of the project--and hence the overall risk--and ICRC assurances made them feel comfortable bidding on the project, though at a very high price.

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15. (U) Singer told EconCouns that the GOI had received at the June 7 AHLIC information about a German KfW-funded wastewater project at Khan Younis, to be implemented by UNDP. The GOI is studying the proposal, but is favorably inclined to seeing it happen.

16. (SBU) COMMENT. The NGWWTP is in Israel's stated and actual interest. An Israeli-caused ecological disaster or a disease epidemic in Gaza would not be a desirable outcome. Consequently, Israel has, in its view, done everything it can to make this project happen. Nonetheless, current restrictive procedures have generated a level of insecurity that, assurances notwithstanding, discourage bidders on large-scale projects. So, while the World Bank assertions appear to have gone too far, certainly in this particular case, there is a subtle undercurrent of truth in that the basic distrust in the system of allowing materials into Gaza may carry with it a disincentive to invest or take on business risk. With possible reconstruction in the offing, now is the time for Israel to redefine its Gaza policy, to create a policy that is at the least transparent, and at best also responsive to commercial needs for materials in Gaza.

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